

## **Industry Restructuring Update Sept. 30, 2004**

### **BPA calls for bylaws changes for regional accountability, cost management**

After reviewing public comments on proposed bylaws, BPA believes Grid West development should go forward if the bylaws can be strengthened to better assure regional accountability and cost control.

“If you’re perceiving from this that BPA wants to modify the regional proposal in a few areas, you’re right,” said Allen Burns, BPA senior vice president for Industry Restructuring. “We think we need some adjustments to create more regional accountability and assure cost control.”

More than 50 parties commented to BPA on the proposed Grid West bylaws as part of BPA’s own due diligence in considering whether to adopt the bylaws. Comments fell into four general categories.

1. Go forward with the bylaws with minor adjustments.
2. Go forward if you can strengthen regional accountability and cost management.
3. Go forward if you can do the above and greatly strengthen the role of members in restricting the board’s independence.
4. Slow or stop the process.

Positions on this spectrum did not fall along customer class lines.

BPA considered all the comments individually, as well as recommendations from the National Academy of Public Administration (NAPA), in developing its own response. Comments are posted at <http://www.bpa.gov/corporate/business/restructuring/>

### **DeFazio, Nethercutt express Grid West concerns**

“BPA is accountable to the region via federal laws and regulations, oversight from the congressional delegation, and public and legal pressure from stakeholders. Given this existing multi-layered accountability, any proposal in which BPA turns over the operation and effective control of its transmission system to a private entity must put regional accountability above all else.” That was the crux of comments from Rep. Peter DeFazio, D-Ore., and Rep. George Nethercutt, R-Wash., on proposed bylaws for Grid West. That Grid West would be subject to Federal Energy Regulatory Commission jurisdiction “may be a fatal flaw,” the two suggested, and they called for changes “to shift accountability to the region rather than FERC.” See: [http://www.bpa.gov/corporate/business/restructuring/Docs/2004/ByLaws/Grid\\_West\\_Bylaws\\_Comments\\_046-048.pdf](http://www.bpa.gov/corporate/business/restructuring/Docs/2004/ByLaws/Grid_West_Bylaws_Comments_046-048.pdf)

### **NAPA review, take 2**

Five fellows of the National Academy of Public Administration (NAPA) have added their reflections on Grid West proposed bylaws in the second of three rounds of NAPA review. The issues NAPA raised are among those considered by the Regional Representatives Group at its Sept. 23-24 meeting and assigned for further deliberation in October.

NAPA said there is a greater need for control over costs than the bylaws thus far have provided. It recommended:

- Establish a permanent standing budget committee of board members and stakeholders “who have a demonstrated knowledge of budget matters.”
- Budget committee would recommend a budget to the board each year, including minority reports, if any. The board would not be bound to the recommended budget.
- In adopting the annual budget, the board would be required to explain any differences between the adopted budget and the committee’s recommendation.

To assure workability of the organization, the panel recommended reducing the number of votes to elect board members from 24 to 20 and providing that board members serve until their successors are selected. It recommended that the initial board members serve three-year terms to give the initial board members more time to educate themselves about regional transmission issues and that staggered terms be phased in thereafter. NAPA also recommends creating a Governance committee to focus on improving Grid West governance by adopting best governance practices. The panel also recommended adopting more stringent “revolving door” limitations on subsequent employment for those whose board service is complete similar to those applicable to federal employees.

With respect to whether the Grid West proposal balances regional accountability with an independent board free of conflicts of interests, NAPA found: “The operational bylaws have established accountability to regional interests as a whole while tending to maintain independence of the governance structure from particular special interests and from overly intrusive involvement of FERC.”

NAPA will present the results of its report at an RRG meeting on October 12. It will issue its final report a few weeks later.

### **Snohomish study is premature**

A study summary on Grid West costs and benefits announced Sept. 23 by Snohomish County PUD is premature and hence not very informative, according to Janelle Schmidt, BPA’s representative on the Risk Reward Subgroup of the Regional Representatives Group.

“We can’t meaningfully assess Grid West costs and benefits until we have identified the basic market design and have captured a cost-management philosophy in the governance structure,” Schmidt explained. The Risk Reward Subgroup is focused on producing this meaningful analysis; a draft is due in spring 2005, well before any parties commit to participate in Grid West operation.

“We have good reason to believe we can run Grid West at costs equal to or less than the least expensive RTO now in existence, due to the way we’re designing Grid West markets and the lessons we can learn from other RTOs’ mistakes,” Schmidt said.

Henwood Energy Services produced the study for Snohomish PUD. It found \$78 million a year in Grid West benefits from eliminating pancaked rates and more efficient provision of ancillary services. Henwood estimated Grid West costs of \$221 million a year based on an average of other RTOs' costs per megawatt-hour. Grid West will not have the financial rights markets, locational pricing, retail access or similar features that have caused cost increases at other RTOs, Schmidt noted. The Henwood study did not address Grid West benefits related to reliability, planning, efficiencies in generation and transmission development, more efficient use of the existing grid and delayed transmission construction.

### **TSLG offers workshop on how Grid West would work**

On Oct. 14, back-to-back with a Regional Representatives Group meeting, the RRG Transmission Services Liaison Group is offering a workshop on how the Beginning State of Grid West would work. TSLG members and consultants will provide an overview of the work completed to date on the market and operational design for Grid West's Beginning State. The seminar will cover transmission rights administration, transmission reconfiguration services, scheduling processes and responsibilities, and reserve and real-time energy markets that can be used by Grid West to meet the ancillary service requirements of a consolidated control area. For details, check the Grid West Web site at [http://www.rtowest.com/RRG\\_Main.htm](http://www.rtowest.com/RRG_Main.htm) or contact Steve Walton of the Grid West coordinating team at [swalton@ieee.org](mailto:swalton@ieee.org)

### **WECC seeks common resource adequacy criteria**

The Western Electricity Coordinating Council is working toward adopting standard criteria and a common metric to measure members' resource adequacy. The WECC Reliability Subcommittee Resource Adequacy Workgroup plans to submit its recommendations on resource adequacy criteria by early 2005. BPA's Mary Johannis chairs the workgroup. Watch the issues and track the group's progress at <http://www.wecc.biz/committees/PCC/RS/Meetings/index.html> WECC members now evaluate the reliability of their respective resource supplies according to their own individual criteria. There is no required standard method.

### **Possible TIG/Grid West collaboration**

In addition to actively working on Grid West, BPA is also pursuing conversations with a small group of representatives from both the Transmission Issues Group and Grid West on actions to improve regional grid coordination that could be pursued now, prior to a decision on Grid West. "While Grid West would be FERC jurisdictional and would not become operational for at least two years, this approach is exploring steps that could be taken now, short of FERC jurisdiction, to resolve some of our regional transmission issues," explained Allen Burns, BPA senior vice president for Industry Restructuring.

The group is exploring transmission grid planning and expansion, market monitoring, reliability and a common OASIS plus a common ATC (available transmission capability) approach. The approach is to see what can be done now and then see whether it's enough to address regional problems or whether additional steps are needed, Burns explained. If it is determined that Grid West is needed, it could facilitate moving to the Grid West initial operation.

"It's possible we may see some joint Grid West/TIG teams forming soon," Burns said.

**Industry Restructuring on BPA's (external) Web site.**

BPA materials on industry restructuring issues are now on the BPA (external) Web site on their own "industry restructuring" page: <http://www.bpa.gov/corporate/business/restructuring/> It's physically located both at the bottom of BPA's home page and under "Doing Business with BPA" on the right top corner of the page.